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FINANCIAL REVIEW

SECOND QUARTER EARNINGS PER SHARE JUMP ALMOST 25 PERCENT

Investor-owned electric utility earnings per share before extraordinary items increased from $0.53 in the second quarter of 1990 to $0.66 in the second quarter of 1991, a jump of 24.5 percent. The increase was due to a 3.1 percent increase in 1991 second quarter sales and to $980.7 million in nonrecurring reductions to 1990 second quarter income. No one-time reductions were recorded for the second quarter of this year. At the same time, however, the increase in earnings per share was tempered by the continuing trend of a lower allowance for funds used during construction and phase-in plan accruals.

Income Statement

Total electric operating revenues increased 8.4 percent from $35.0 billion in the second quarter of 1990 to $37.9 billion in the second quarter of 1991. A strong sales performance attributed to warmer than usual weather contributed to the revenue increase. The relatively large increase also reflects one company's second quarter 1990 $507.3 million refund, which reduced operating revenues. (See Table 1.)

Total electric operating expenses increased 7.4 percent from $27.3 billion to $29.3 billion on a quarter-to-quarter basis. The increase was driven largely by a 13.5 percent increase in purchased power & net interchange, by a 9.9 percent increase in operation and maintenance expense, and by a 14.2 percent increase in taxes.

The increase in operation and maintenance expense was related to two developments: two companies recovered prior uncollected expenses through regulatory cost-recovery clauses, and several companies undertook refueling and preventive maintenance outages.

Federal and other income taxes increased 29.8 percent from $1.3 billion in the second quarter of 1990 to $1.7 billion in the second quarter of this year. The apparently large increase was related to the

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Table 1
Investor-Owned Electric Utility Industry Statement of Income
(Millions of Dollars)

	Three Months Ending June 30,			Twelve Months Ending June 30,		
	1991	1990r	% Change[3]	1991	1990r	% Change[3]
Total Electric Operating Revenue[1]	$37,930	$34,992	8.4	$152,044	$143,679	5.8
Electric Operating Expenses						
Fuel	$7,481	$7,713	(3.0)	$31,486	$32,061	(1.8)
Purchased Power & Net Interchange	3,294	2,903	13.5	12,296	10,229	20.2
Other Operation & Maintenance	9,377	8,529	9.9	38,144	35,331	8.0
Depreciation & Amortization	4,150	3,925	5.7	15,943	15,296	4.2
Costs Deferred Under Rate Phase-In	(52)	(209)	(74.9)	(304)	(756)	(59.8)
Taxes Other Than Income Taxes	3,012	2,792	7.9	11,889	11,102	7.1
Income Taxes: Federal & Other	1,691	1,302	29.8	7,353	7,068	4.0
Deferred Income Taxes	452	375	20.7	2,011	1,863	7.9
Investment Tax Credits, Net	(71)	(19)	267.6	(190)	(85)	122.6
Total Electric Operating Expenses	$29,334	$27,311	7.4	$118,627	$112,111	5.8
Electric Operating Income	$8,596	$7,681	11.9	$33,416	$31,569	5.9
Other Utility Operating Income	143	174	(17.9)	1,107	1,093	1.3
Total Utility Operating Income	$8,739	$7,855	11.2	$34,523	$32,662	5.7
Other Income & Deductions, Net	397	123	223.5	(867)	(755)	14.9
Phase-In Deferrals	99	162	(38.8)	580	1,006	(42.3)
Allowance for Other Funds Used During Construction	159	281	(43.5)	839	1,207	(30.6)
Total Income Before Interest Charges	$9,394	$8,422	11.5	$35,075	$34,120	2.8
Interest Charges						
Interest on Long-Term Debt	$3,873	$3,965	(2.3)	$15,410	$15,280	0.9
Other Interest Expenses & Charges	389	386	0.7	1,653	1,350	22.4
Allowance for Borrowed Funds Used During Construction	(163)	(256)	(36.2)	(793)	(1,140)	(30.4)
Net Interest Expenses & Charges	$4,098	$4,095	0.1	$16,270	$15,490	5.0
Net Income Before Extraordinary Items	$5,296	$4,327	22.4	$18,806	$18,630	0.9
Extraordinary Items	(39)	0	N.M.	(75)	(94)	(20.4)
Cumulative Effect of a Change in Accounting Principle	0	0	N.M.	0	173	N.M.
Net Income	$5,256	$4,327	21.5	$18,731	$18,709	0.1
Preferred Dividends Declared	488	508	(3.9)	1,970	2,051	(4.0)
Net Income Available for Common	$4,769	$3,819	24.9	$16,761	$16,658	0.6
Common Dividends Declared	3,430	3,205	7.0	13,403	12,798	4.7
Additions to Retained Earnings	$1,339	$614	117.9	$3,358	$3,860	(13.0)
Average Shares Outstanding (Millions)	7,296	7,145	2.1	7,325	7,237	1.2
Earnings Per Share Before Extraordinary Items and the Cumulative Effect of a Change in Accounting Principle[2]	$0.66	$0.53	24.5	$2.30	$2.29	0.4
Earnings Per Share After Extraordinary Items and the Cumulative Effect of a Change in Accounting Principle[2]	$0.65	$0.53	22.6	$2.29	$2.30	(0.4)
Common Dividends Per Share[2]	$0.47	$0.45	4.4	$1.83	$1.77	3.4

Source: Edison Electric Institute Survey Data and Standard & Poor's Compustat II Database Service.
[1]Revenues are adjusted for intra-industry electricity sales for resale.
[2]Based on average shares outstanding as reported to Edison Electric Institute by survey respondents and adjusted for stock splits.
[3]Percent changes may reflect independent roundings.
r-revised to reflect company restatements.
N.M.-Not Meaningful.

Table 2
Investor-Owned Electric Utility Industry Balance Sheet
(Millions of Dollars)

Assets	June 30, 1991	June 30, 1990r	% Change[2]
Utility Plant[1]			
Utility Plant (Including Nuclear Fuel)	$522,637	$494,745	5.6
Less Accumulated Depreciation	162,897	151,493	7.5
Total	$359,740	$343,252	4.8
Construction Work in Progress	22,061	32,865	(32.9)
Net Utility Plant	$381,801	$376,116	1.5
Investments	27,885	25,334	10.1
Current Assets	44,595	41,883	6.5
Deferred Debits	37,185	36,723	1.3
Total Assets	$491,465	$480,057	2.4
Capitalization and Liabilities			
Capitalization			
Common Stock	$94,124	$93,875	1.3
Retained Earnings	54,001	51,803	4.2
Preferred Stock	25,290	25,594	(1.2)
Long-Term Debt	172,956	168,996	2.3
Total Capitalization	$347,370	$340,268	2.1
Current Liabilities			
Short-Term Debt	$12,043	$11,823	1.9
Long-Term Debt Due Currently	9,553	6,693	42.7
Other Current Liabilities	32,887	33,305	(1.3)
Total Current Liabilities	$54,483	$51,821	5.1
Deferred Credits			
Capital Lease Obligations, Non-Current Portion	$3,419	$3,875	(11.8)
Accumulated Deferred Income Taxes	52,490	50,832	3.3
Accumulated Deferred Investment Tax Credits	15,188	15,562	(2.4)
Other Deferred Credits	18,515	17,697	4.6
Total Deferred Credits	$89,612	$87,967	1.9
Total Capitalization & Liabilities	$491,465	$480,057	2.4

Source: Edison Electric Institute Survey Data and Standard & Poor's Compustat II Database Service.

[1]Includes non-electric utility plant.
[2]Percent changes may reflect independent roundings.
r-revised to reflect company restatements.

tax benefits associated with the operating revenue refund mentioned earlier. These tax benefits reduced second quarter 1990 federal and other taxes by approximately $200 million, but had no impact in 1991. Increased taxable earnings in the second quarter of 1991 also contributed to the quarterly increase in this category.

Deferred income taxes increased 20.7 percent from $375 million in the second quarter of 1990 to $452 million in the second quarter of 1991. The major contributor here was one company's placing into service a new baseload generating unit after the second quarter of 1990. During the last half of 1990, the unit was placed into opertion and the company began to defer taxes related to accelerated depreciation.

Fuel expense decreased 3.0 percent from $7.7 billion in the second quarter of 1990 to $7.5 billion in the second quarter of 1991. The decrease was due largely to increases in the use of less expensive nuclear fuel by some companies and in the use of purchased power by others.

Electric operating income increased 11.9 percent from $7.7 million to $8.6 milion, the highest increase recorded since the second quarter of 1986. Even without the one company's 1990 operating revenue refund, operating income still would have increased 5.0 percent.

Other income and deductions increased 223.5 percent over the second quarter of 1990. The large increase is due to writeoffs that reduced other income by $472.5 million in the second quarter of 1990 versus no non-recurring reductions in the second quarter of 1991.

Overall, allowance for funds used during construction (AFUDC) and phase-in accruals decreased $435 million from quarter-to-quarter basis. AFUDC itself declined from $537 million to $322 million, a 40.0 percent decrease. The majority of the drop is associated with one company's completion of a baseload generating unit in the second half of last year.

Consequently, the quality of the industry's earnings improved as the ratio of AFUDC as a percentage of net income available for common decreased from 14.1 percent in the second quarter of 1990 to 6.8 percent in the second quarter of 1991, the largest quarter-to-quarter drop experienced since Edison Electric Institute began tracking the ratio. For the year ended June 30, 1991, the ratio decreased 9.7 percent over the previous twelve months. The ratio is the lowest it has been since 1967.

Total phase-in accruals decreased from $371 million in the second quarter of 1990 to $151 million in the second quarter of 1991, a 59.3 percent decline. Over half of the companies reporting phase-in plans experienced a decline over the period.

Interest on long-term debt decreased 2.3 percent from $4.0 billion in the second quarter of 1990 to $3.9 billion in the second quarter of this year. The primary reason for the decline was the elimination of a portion of one company's interest expense after the second quarter of last year due to a bankruptcy reorganization. This reduced its interest expense by an estimated $104 million in the second quarter of 1991.

Balance Sheet

Construction work in progress (CWIP) decreased 32.9 percent from $32.9 billion as of June 30, 1990, to $22.1 billion as of a year later. CWIP as a percentage of net plant in service declined from 9.6 percent to 6.1 percent in the same period. A total utility plant increase of 5.6 percent was associated with the decrease in CWIP. (See Table 2.)

Investments for the industry for the twelve months ending June 30, 1991, increased 10.1 percent to $27.9 billion from the $25.3 billion recorded for the previous year. The increase is attributable to several unrelated transactions involving different companies—leasing equipment increases, the purchase of real estate, land development, and acquisitions of oil and gas facilities.

The common equity capitalization ratio increased slightly from 42.8 percent for the year ending June 30, 1990, to 42.9 percent for the year ending June 30, 1991. Common stock increased 1.3 percent while retained earnings increased 4.2 percent. The proportion of preferred stock in the industry's capitalization ratio decreased from 7.5 percent to 7.3 percent. Long-term debt increased 2.3 percent over the twelve months, inching long-term debt as a percentage of capitalization from 49.7 to 49.8.

Tables 1 and 2 are based on unaudited reports submitted by a sample of investor-owned electric utilities. The sampe represents approximately 99.4 percent of the industry's total assets and 99.0 percent of its total revenues. With the use of the Standard & Poor's Utility Compustat II database, data are adjusted to represent the entire investor-owned electric utility industry. The data have also been revised to reflect all company restatements.

Contributed by Edison Electric Institute's Finance and Accounting Department.

REGULATORY REVIEW

RATE INCREASES UP FOR FIRST HALF OF YEAR

During the first six months of 1991, utility commissions approved 51 investor-owned electric utility rate cases totaling $2.9 billion on an annualized basis, a 110 percent increase over the $1.4 billion approved during the previous six months and the highest increase in approved filings Edison Electric Institute has recorded since it began tracking the number in 1982. State and local commissions approved 70.3 percent of the amounts requested by utilities; the average increase approved per rate order was $56.0 million, up 87 percent over the $30.0 million average experienced in 1990. (See Table 1.)

Approximately $1.1 billion of the $2.9 billion in increases was attributable to cases involving two companies. One was granted a rate increase of about $750 million to recognize costs associated with four nuclear units. The other was granted non-final approval of phase-in rates totaling about $300 million associated with a nuclear unit.

Over half of the remaining $1.8 billion approved during the first half of the year was related to cases filed by four companies. Two sought general rate relief due to cost pressures. The third received approval for a successive fixed annual increase in rates to help it emerge from bankruptcy, and the fourth received approval for partial recovery of its investment in a canceled plant.

Average authorized return on equity (ROE) by state commissions declined slightly from 12.75 percent for the last half of 1990 to 12.62 percent for the first half of 1991. Average authorized ROE has declined by 26 basis points since the second half of 1989.

Table 1
Electric Rate Actions
January 1–June 30, 1991

	Number of Actions		Dollar Amounts ($000)	
	Increases	Decreases	Increases	Decreases
Type of Action				
Filed During Period	48	5	3,227,403	11,791
Pending 6/30/91	72	4	5,369,973	6,581
Approved During Period				
Nonfinal[1]	8	1	1,078,977	7
Final	43	7	1,779,223	132,289
Total	51	8	2,858,200	132,296
Withdrawn During Period	1	0	13,587	0
Denied During Period[2]	3	0	228,850	0

[1]Includes interim increases not subject to refund, increases under bond, and increases subject to refund.
[2]Only final denial of any increase in rates is reported as denied. When a utility is granted a lower increase in rates than it filed for, the remainder is not reported as denied. When a utility seeks a rate increase and the commission in its final order instead imposes a rate decrease, the amount of the increase the utility had sought is reported as denied and the decrease imposed by the commission is reported as an approved decrease.

The requested ROE has also declined. Utilities filing applications with state commissions during the first half of this year requested an average ROE of 13.09 percent. The average ROE requested during the last half of last year was 13.32 percent.

Rate decrease approvals continued to drop, declining from a toal of $187.8 million in the last half of 1990 to $132.2 million in the first half of 1991. During the first half of this year, the average rate decrease approved per rate order was $16.5 million compared to $14.6 million averaged last year.

Forty-eight rate increases were filed during the first six months of this year; only 27 were filed during the previous six months. A total of $3.2 billion in rate increases were requested during the first half of 1991, a 60.7 percent increase over the $2.0 billion requested in the last half of 1990. (The large increase in both the number and dollar amount of filed cases is due to a change in Edison Electric Institute's survey methodology. The way the totals for filed cases are presented in the survey, which is compiled by EEI's Rate Regulation Department, has been changed. Now, all cases filed during the period are reported in the filed category; in the past, only those cases that were not dispatched during the period were recorded as filed. The new methodology presents the total amount filed more accurately.)

Five rate decrease cases amounting to $11.8 million were filed during the first half of 1991, down from the $18.3 million filed during the last half of 1990.

Pending rate increases as of June 30, 1991, numbered 72. Together they represented $5.4 billion in requested annualized revenues. Four rate decrease cases totaling $6.6 million were also pending at the end of the first six months of 1991.

Contributed by Edison Electric Institute's Finance and Accounting Department.

STATISTICAL REVIEW

SECOND QUARTER SALES UP 3.1 PERCENT

Strong residential and commercial demand boosted by warmer than usual weather led to a 3.1 percent increase in second quarter 1991 sales to ultimate customers by investor-owned electric utilities. The sales growth contributed to a significant 8.5 percent increase in second quarter revenue. (See Table 1.)

The relatively strong sales growth occurred despite a declining economy and slowing growth in the number of customers. Real gross national product, in constant 1982 dollars on an annual basis, declined 0.5 percent over the first quarter, and the total number of ultimate customers grew only 1.1 percent, the lowest increase recorded since Edison Electric Institute began tracking customer statistics in 1982.

Nonetheless, the revenue growth for the quarter was the largest increase recorded since the second quarter of 1984. Strong sales, $4.2 billion of annualized rate increase approvals since the second quarter of 1990, and a 1990 second quarter revenue reduction of $507.3 million all contributed to the dramatic increase.

Contributed by Edison Electric Institute's Finance and Accounting Department.

Table 1
Second Quarter Customer, Sales, and Revenue Data for Investor-Owned Electric Utilities

	Three Months Ending June 30,			Twelve Months Ending June 30,		
	1991	1990	% Change	1991	1990	% Change
Number of Customers						
Residential	74,399,398	73,559,239	1.1	74,154,496	73,155,429	1.4
Commercial	9,338,666	9,264,689	0.8	9,322,245	9,192,002	1.4
Industrial	392,856	392,494	0.1	393,456	384,240	2.4
Street & Highway	145,992	140,931	3.6	143,124	137,495	4.1
Other Public Authorities	167,867	157,652	6.5	163,055	155,725	4.7
Railroads	24	24	0.0	24	23	4.3
Interdepartmental	473	491	(3.7)	472	473	(0.2)
Total Customers	84,445,276	83,515,520	1.1	84,176,872	83,025,387	1.4
Electricity Sales (MWh)						
Residential	155,530,399	146,440,482	6.2	679,881,822	659,796,972	3.0
Commercial	151,962,874	146,610,852	3.7	617,611,402	599,997,198	2.9
Industrial	178,761,973	179,316,034	(0.3)	715,523,039	710,079,136	0.8
Street & Highway	2,457,280	2,450,875	0.3	10,479,704	10,466,546	0.1
Other Public Authorities	14,021,426	12,789,538	9.6	52,131,225	51,500,418	1.2
Railroads	634,159	607,724	4.3	2,540,576	2,512,262	1.1
Interdepartmental	291,388	416,984	(30.1)	1,082,648	1,799,811	(39.8)
Total Sales	503,659,499	488,632,489	3.1	2,079,250,416	2,036,152,343	2.1
Revenues ($000)						
Residential	13,355,174	11,974,205	11.5	56,644,150	53,022,221	6.8
Commercial	11,710,014	10,831,680	8.1	46,958,185	44,281,534	6.0
Industrial	8,982,952	8,601,418	24.4	35,813,232	34,524,925	3.7
Street & Highway	318,706	304,546	4.6	1,263,266	1,225,173	3.1
Other Public Authorities	714,741	603,629	18.4	2,701,237	2,526,421	6.9
Railroads	44,630	38,359	16.3	173,065	162,045	6.8
Interdepartmental	22,884	27,558	(17.0)	92,859	103,736	(10.5)
Total Revenues	35,149,101	32,381,395	8.5	143,645,994	135,846,055	5.7

Source: Edison Electric Institute, Statistics Department.